

## Message Text

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ACTION EA-09

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EB-07 COME-00 INT-05 AGR-10 STR-04 FEA-01 CIEP-02

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P 300710Z JUL 76

FM AMEMBASSY TOKYO

TO TREASURY DEPT WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 1229

UNCLAS SECTION 1 OF 2 TOKYO 11475

TREASURY FOR SYVRUD AND FAUVER

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: JAPAN'S RAW MATERIALS INVENTORY AND THE IMPORT OUTLOOK

1. SUMMARY: IMPORT UPSWING PREDICTED BY GOJ APPARENTLY WILL BE DELAYED BY CONTINUING "OVERHANG" OF RAW MATERIALS INVENTORIES. INVENTORY VOLUME IS STILL ABOUT 13 PERCENT ABOVE "NORMAL" AND RATIO OF INVENTORIES TO CONSUMPTION IS FAR HIGHER THAN LEVEL AT WHICH PICKUP IN IMPORTS WOULD BE LIKELY. CURRENT DATA INDICATE THAT RAPID UPSWING IN IMPORTS WILL NOT COME PRIOR TO FINAL QUARTER OF 1976 AND WILL PROBABLY BE DELAYED UNTIL EARLY 1977. END SUMMARY.

2. FOR THE PAST SIX MONTHS, GOJ OFFICIALS HAVE BEEN PREDICTING THAT THE RECENT UPSWING IN INDUSTRIAL PRODUCTION, WHICH BEGAN IN MARCH 1975 AND ACCELERATED IN DECEMBER OF THAT YEAR, WOULD CAUSE A SUBSTANTIAL PICKUP IN THE VOLUME OF IMPORTS IN THE THIRD QUARTER OF 1976. HOWEVER, ANALYSIS PRESENTED IN THIS CABLE INDICATES THAT THIS PICKUP WILL BE DELAYED BECAUSE JAPAN'S CURRENT STOCK OF IMPORTED RAW MATERIALS IS VERY LARGE. AT PRESENT THE STOCK OF IMPORTED

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RAW MATERIALS APPEARS TO BE FULLY 13 PERCENT ABOVE THE

LEVEL PROJECTED BY ANALYSIS OF ITS LONG-TERM TREND.

3. INEDIBLE RAW MATERIALS (INCLUDING FUELS) ACCOUNTED FOR 63-64 PERCENT OF THE TOTAL VALUE OF JAPAN'S IMPORTS IN 1974 AND 1975. THE REBUILDING OF INVENTORIES IN PREVIOUS RECOVERIES HAS HAD A SUBSTANTIAL IMPACT UPON THE LEVEL OF JAPAN'S IMPORTS. DESPITE RISING PRICES IN 1972, JAPANESE TRADING COMPANIES, ANTICIPATING EVEN FURTHER PRICE INCREASES AND POSSIBLE SCARCITIES FOR INDUSTRIAL COMMODITIES, SUBSTANTIALLY INCREASED THEIR ORDERS FOR IMPORTED RAW MATERIALS. THE BOOM YEAR OF 1973 SAW A MASSIVE INCREASE IN THE VOLUME OF JAPAN'S RAW MATERIAL IMPORTS AND THIS INCREASE CONTINUED THROUGH THE FIRST HALF OF 1974.

4. AS A RESULT OF THE SLOWDOWN IN PRODUCTION AFTER NOV 1973, HOWEVER, CONSUMPTION OF IMPORTED RAW MATERIALS PLUNGED. INVENTORIES OF IMPORTED RAW MATERIALS SOARED TO RECORD LEVELS AS IMPORTS ORDERED PRIOR TO THE TURNDOWN WERE DELIVERED. TABLE 1 SHOWS MOVEMENTS OF IMPORTED RAW MATERIALS CONSUMPTION AND INVENTORIES SINCE 1973. FOLLOWING THE DECLINE IN RAW MATERIALS CONSUMPTION AFTER THE THIRD QUARTER OF 1973, THE LEVEL OF INVENTORIES CONTINUED TO GROW. ALTHOUGH THE RATIO OF RAW MATERIALS INVENTORIES TO CONSUMPTION HAS DECLINED SINCE LATE 1975, THIS DROP IS DUE LARGELY TO AN INCREASE IN PRODUCTION LEVELS. THE PHYSICAL VOLUME OF THESE INVENTORIES HAS HARDLY DECLINED AT ALL. RELATIVE TO THE LONG-TERM TREND OF THE IMPORTED RAW MATERIALS INVENTORY INDEX, THE INDEX WAS ABOUT 13 PERCENT ABOVE THE TREND LINE IN JAN-MAR 1976. WITH RAW MATERIALS CONSUMPTION CURRENTLY AT LOW LEVELS, THE ACTUAL EXCESS OF INVENTORIES IS EVEN GREATER THAN THAT FIGURE INDICATES.

TABLE 1: INDICES OF CONSUMPTION AND INVENTORIES OF IMPORTED RAW MATERIALS (1970-100, S.A.)

	(JEI 293)	(JEI 297)	(JEI 49)
	CONSUMPTION	INVENTORIES	IMPORT VOLUME
1973 I	123.0	137.9	124.7
II	134.3	140.7	143.5
III	136.9	146.9	148.8
IV QETMY		140.5	155.1

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1974 I	131.5	140.9	144.2
II	130.5	143.7	146.7
III	130.3	152.7	141.4
IV	125.5	160.5	132.2
1975 I	118.5	167.4	123.7
II	116.5	170.5	118.4
III	118.6	171.1	124.2
IV	116.0	171.2	122.4

1976 I 121.8 170.0 132.8

5. MOVEMENTS OF THE OVERALL INDEX OF RAW MATERIALS INVENTORIES MIGHT FAIL TO INDICATE SIGNIFICANT INVENTORY DECLINES FOR CERTAIN MAJOR COMMODITIES. IN TABLE 2 THE VOLUMES OF INVENTORIES FOR 12 PRINCIPAL IMPORTED RAW MATERIALS AS OF MARCH 1976 ARE COMPARED WITH LEVELS OF THESE INVENTORIES ON TWO EARLIER DATES IN THE 1973-75 RECESSION. FIRST DATE IS JUNE 1974, WHEN THE RECESSION WAS STILL IN ITS EARLY STAGES; SECOND DATE, MARCH 1975, COINCIDES WITH THE BEGINNING OF THE UPTURN IN INDUSTRIAL PRODUCTION. INVENTORIES OF ONLY A FEW COMMODITIES HAVE DECLINED FROM LEVELS REGISTERED IN MID-1974 OR EARLY 1975. MOREOVER, MOST OF THESE ITEMS (INDUSTRIAL SALT, WOOD CHIPS AND NATURAL RUBBER) COMPRISE ONLY A SMALL PORTION OF JAPAN'S RAW MATERIAL IMPORTS. AN IMPORTANT IMPORT COMMODITY WHICH HAS DECLINED SUBSTANTIALLY IN THE PAST YEAR IS WOOL. THOSE COMMODITIES WHICH HAVE A SUBSTANTIAL WEIGHT IN JAPAN'S IMPORTHPATTERN, SUCH AS IRON ORE AND CRUDE OIL, HAVE EITHER REGISTERED INCREASES OR ONLY MODEST DECLINES IN INVENTORY VOLUME SINCE JUNE 1974 OR MARCH 1975.

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TABLE 2: CHANGE IN INVENTORY(VOLUME BASIS) OF PRINCIPAL

## IMPORTED RAW MATERIALS: MARCH 1976

PERCENT OF 1975		JUNE 1974 MARCH 1975	
IMPORT VALUE		TO MAR 1976 TO MAR 1976	
3.8	IRON ORE	20.8	- 7.5
0.6	STEEL SCRAP	255.9	100.5
1.4	COPPER ORE	1.4	- 2.9
0.1	BAUXITE	16.7	11.7
33.9	CRUDE OIL	2.5	9.9
6.2	COKING COAL AND	153.4	18.2
	COKE		
0.4	PHOSPHATE ORE	- 10.0	31.6
0.1	INDUSTRIAL SALT	34.4	-10.6
N.A.	WOOD CHIPS	124.9	- 16.7
1.4	RAW COTTON	- 0.9	- 7.5
0.9	WOOL	- 27.5	- 19.7
0.3	NATURAL RUBBER	- 8.4	-32.4

6. FURTHER INDICATION OF CURRENT SIZE OF RAW MATERIALS  
INVENTORY OVERHANG IS OBTAINED BY ANALYZING MOVEMENTS OF  
INDEX OF INVENTORIES RELATIVE TO CONSUMPTION OF RAW MATERIALS  
IN MANUFACTURING AND INDEX OF INVENTORIES RELATIVE TO SHIPMENTS  
OF IMPORTED RAW MATERIALS IN MANUFACTURING DURING THE  
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POSTWAR PERIOD. THERE HAS BEEN A SECULAR DECLINE IN BOTH  
INDICES DURING PAST TEN YEARS AS FIRMS HAVE BEEN ABLE TO  
REDUCE THE VOLUME OF INVENTORIES NEEDED FOR A GIVEN LEVEL  
OF MANUFACTURING PRODUCTION. THE GENERAL DOWNWARD MOVEMENT  
FOR THE IMPORTED RAW MATERIALS INVENTORY/SHIPMENTS RATIO CAN  
BE SEEN IN CHART OF PAGE 19 OF MAY OR JUNE 1976 ISSUES  
OF "JAPAN ECONOMIC INDICATORS."

7. TABLE 3 SHOWS LEVEL OF INDEX OF INVENTORY RATIO TO  
CONSUMPTION OF RAW MATERIALS IN MANUFACTURING INDUSTRY  
AND INDEX OF INVENTORY RATIO TO SHIPMENT FOR IMPORTED  
RAW MATERIALS USED IN MANUFACTURING FOR THOSE ORDERS IN  
WHICH IMPORT VOLUMES INCREASED SHARPLY DURING ECONOMIC  
RECOVERY. LATEST AVAILABLE DATA FOR THESE INDICES ARE SHOWN  
IN BOTTOM ROW OF TABLE. PERCENT DECLINE IN INDEX FROM ITS  
PRIOR PEAK UNTIL QUARTER SHOWN IN TABLE IS INDICATED IN  
PAREN.

TABLE 3 RAW MATERIAL INVENTORY/CONSUMPTION OR INVENTORY/  
SHIPMENTS RATIOS WHEN IMPORTS INCREASED SHARPLY  
(INDICES, 1970-100, S.A.)

QTR WHEN	RATIO OF INV.	RAW MAW MATERIALS TO SHIPMENTS
1959:2	191.4 (-21.7)	186.9 (-23.0)
1963:2	147.7 (-18.7)	134.1 (-19.0)
1966:1	121.3 (-5.2)	100.7 (-5.5)
1973:3	100.8 (-14.7)	108.5 (-13.8)

1976:1 146.7 (-2.6) 139.7 (-5.4)

8. IN EARLIER POSTWAR ECONOMIC RECOVERIES, INVENTORY CONSUMPTION OR INVENTORY/SHIPMENTS RATIOS FOR RAW MATERIALS HAVE NORMALLY DECLINED BY 14 PERCENT OR MORE FROM THEIR PRIOR PEAK BY THE TIME THE VOLUME OF RAW MATERIAL IMPORTS INCREASES SHARPLY. (APPARENT EXCEPTION TO THIS, THE 1965/66 "RECESSION," WAS ACTUALLY ONLY SLOWDOWN RATE OF A CONTINUING GROWTH IN INDUSTRIAL PRODUCTION.) IN ADDITION, DURING PAST RECOVERIES THE TIME REQUIRED FOR A DECLINE FROM PRIOR PEAK OF INDEX TO LEVEL AT WHICH VOLUME OF RAW MATERIAL IMPORTS PICKED UP SHARPLY REQUIRED AN AVERAGE OF 4.5 QUARTERS FOR THE INDEX OF INVENTORIES OF RAW MATERIALS TO CONSUMPTION AND AVERAGE OF FOUR QUARTERS FOR INDEX OF RATIO OF INVENTORIES TO SHIPMENTS OF IMPORTED RAW MATERIALS.

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MATERIALS.

9. ASSISTANT FINANCIAL COMMENT: SINCE INVENTORY VOLUMES FOR VIRTUALLY ALL IMPORTANT RAW MATERIALS IMPORTED TO JAPAN REMAIN ABOVE NORMAL, HIGH RATIO OF THESE INVENTORIES TO CONSUMPTION OR SHIPMENTS DOES NOT MERELY REFLECT FAILURE OF INDUSTRIAL PRODUCTION TO REGAIN PRIOR PEAK. MOREOVER, BOTH INDEX OF IMPORTED RAW MATERIAL INVENTORIES TO SHIPMENTS AND RAW MATERIALS TO CONSUMPTION ONLY BEGAN TO DECLINE AFTER FINAL QUARTER OF 1975 (SEE CHART, PAGE 19 OF JEI). THEREFORE, IT IS UNLIKELY THAT THEY WILL DECLINE TO A LEVEL WHICH WOULD CAUSE A LARGE INCREASE IN IMPORTS OF RAW MATERIAL IMPORTS UNTIL THE FINAL QUARTER OF 1976 OR FIRST QUARTER OF 1977, RELATIVELY HIGH LEVEL OF BOTH INDICES AS WELL AS SMALLNESS OF THEIR DECLINES FROM PRIOR PEAK DURING CURRENT RECOVERY IS FURTHER INDICATION THAT RAW MATERIAL IMPORTS WILL NOT INCREASE SHARPLY BEFORE OCT-DEC 1976. IT IS MORE LIKELY THAT UPSWING WOULD BE DELAYED UNTIL FIRST QUARTER OF 1977.

SHOESMITH

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## Message Attributes

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